

Message Text

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L/PM - J MICHEL

D - J BILLER

OSD/ISA - F ACKERSON

NSC - B. HUBERMAN

TREASURY - G. NENSEL

COMMERCE - D. FERREL

S/S - SRGAMMON

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TO AMEMBASSY BONN IMMEDIATE

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REF: BONN 5612, 5613, 5615, 5619

1. DEPARTMENT, TREASURY AND DOD HAVE REVIEWED REFTELS AND AUTHORIZE EMBASSY TO MAKE FOLLOWING COMMENTS TO GERMAN EXPERTS IN MEETING SCHEDULED APRIL 10 ON TEXT OF DRAFT AGREEMENT CONTAINED BONN 5612, AS CORRECTED BY BONN 5619.

2. ARTICLE ONE: ACCEPT TEXT AD REFERENDUM. HOWEVER, MINUTES OF NEGOTIATIONS SHOULD SHOW THAT PARAGRAPH B IS NOT INTENDED TO BE A CONDITION UPON THE OBLIGATIONS UNDERTAKEN IN PARAGRAPH A, BUT RATHER REFLECTS THE INTENTION OF THE FRG AS ORIGINALLY EXPRESSED IN ARTICLE 1(C) OF THE US DRAFT MINUTE. ADDITIONALLY, COMMENT IN BONN 5619 SHOULD BE AMENDED TO READ QUOTE BOTH SIDES AGREED THAT IN MINUTES OF NEGOTIATING SESSIONS IT WOULD BE NOTED THAT EXCESS PAYMENTS IN THE AMOUNT OF DM 121 MILLION REMAINED FROM THE LAST OFFSET AGREEMENT, AND FURTHER AGREED THAT AN AMOUNT OF COMPARABLE MAGNITUDE WILL REMAIN ON JUNE 30, 1974, AND AT THE END OF THE PERIOD COVERED BY THIS OFFSET AGREEMENT. UNQUOTE

3. ARTICLE TWO: ACCEPT TEXT AD REFERENDUM.

4. ARTICLE THREE: ACCEPT GERMAN DRAFT AD REFERENDUM AS SET FORTH PARAGRAPH 2 BONN 5613 SUBJECT TO FOLLOWING CHANGES:

A. GENERAL REVIEW BY EMBASSY OF LANGUAGE AND CORRECTION OF WHAT APPEARS TO BE POOR TRANSLATION OF GERMAN TEXT. FOR EXAMPLE, PARAGRAPH (B) OF PROTOCOL WOULD MORE APPROPRIATELY READ QUOTE THE PAYMENTS WHICH HAVE ALREADY BEEN MADE BY THE GOVERNMENT OF THE UNITED STATES ARE NOT AFFECTED BY THE PROVISIONS OF THIS AGREEMENT UNQUOTE.

B. ADDITION OF FOLLOWING AS PARAGRAPH (D) OF ARTICLE 3 QUOTE THE OBLIGATIONS OF THE GOVERNMENT OF THE FEDERAL REPUBLIC OF GERMANY SET FORTH IN PARAGRAPHS A AND B OF THIS ARTICLE WILL APPLY AFTER JUNE 30, 1975, WITHOUT REGARD TO PARAGRAPH C. UNQUOTE.

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5. ARTICLE 4: ACCEPT TEXT AD REFERENDUM, WITH ADDITION OF FOLLOWING PARAGRAPH (C): QUOTE IN THE EVENT THAT PAYMENTS ENVISIONED UNDER PARAGRAPHS A AND B OF THIS ARTICLE HAVE NOT OCCURRED AS SPECIFIED IN ARTICLE 6, THE GOVERNMENT OF THE FRG WILL TRANSFER FUNDS IN THE AMOUNT OF THE SHORTFALL INTO A US TREASURY INTEREST FREE ACCOUNT. END QUOTE. EMBASSY SHOULD CONTINUE TO PRESS FOR ADOPTION OF THIS LANGUAGE. IF NOT SUCCESSFUL,

EMBASSY SHOULD OBTAIN DETAILED EXPLANATION OF WHY FRG WILL NOT ACCEPT THIS LANGUAGE.

6. ARTICLE 5: EMBASSY SHOULD PRESS FOR FRG ACCEPTANCE OF US LANGUAGE TABLED APRIL 5. IN THIS CONNECTION, AFTER RECEIVING FRG COMMENTS, EMBASSY MAY PROPOSE FOLLOWING CLARIFICATION OF APRIL 5 LANGUAGE: QUOTE THE BUNDESBANK WILL HOLD THESE SECURITIES TO MATURITY EXCEPT UNDER THE CIRCUMSTANCES DESCRIBED BELOW. IN THE EVENT THAT THE LIQUID FOREIGN EXCHANGE RESERVES OF THE BUNDESBANK DECLINE TO A POINT WHICH WOULD OTHERWISE REQUIRE THE USE OF CREDIT ARRANGEMENTS, OTHER THAN SWAPS, FOR PURPOSE OF EXCHANGE MARKET INTERVENTION, THE BUNDESBANK HAS THE RIGHT TO ASK FOR EARLY REDEMPTION OF ANY OR ALL OF THESE SECURITIES AT PAR, PROVIDED THAT THE BUNDESBANK HAS FIRST MADE USE OF ALL OF THE SPECIAL MEDIUM-TERM US TREASURY SECURITIES PURCHASED IN 1971 AND SUBSEQUENT YEARS (PRESENTLY AMOUNTING TO \$11 BILLION) AND THAT, USE HAVING BEEN MADE OF THE ABOVE ASSETS, OTHER SPECIAL

TREASURY SECURITIES RELATING TO MILITARY OFFSET AGREEMENTS ISSUED IN PREVIOUS YEARS WILL BE FIRST REDEEMED. BEFORE EXERCISING SUCH RIGHT, THE BUNDESBANK WILL CONSULT WITH THE US GOVERNMENT.

IT IS FURTHER AGREED THAT SHOULD EARLY REDEMPTION TAKE PLACE UNDER THE ABOVE CONDITIONS AND SUBSEQUENTLY THE RESERVES OF THE BUNDESBANK SHOULD RISE MORE THAN THE EQUIVALENT OF \$2 BILLION FROM THE POINT AT WHICH REDEMPTION WAS MADE, THE BUNDESBANK WILL INVEST ANY FURTHER ACCRETION IN RESERVES, UP TO THE AMOUNT OF THE INITIAL INVESTMENT, IN US GOVERNMENT SECURITIES ON THE SAME TERMS AS THOSE REDEEMED FOR THE REMAINDER OF THE ORIGINAL SEVEN-YEAR LIMITED OFFICIAL USE

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PERIOD, IF ANY. END QUOTE.

7. ARTICLE SIX: A. CHANGE SENTENCE 3 OF ARTICLE 6(A) TO READ QUOTE GIVEN THE LITTLE TIME REMAINING BETWEEN THE SIGNING OF THIS AGREEMENT AND JUNE 30, 1974, FIFTY PERCENT OF THE ELEMENTS OF THIS AGREEMENT EXCEPT AS SPECIFIED ABOVE SHALL BE FINANCED BY NO LATER THAN SEPTEMBER 30, 1974, WHILE FIFTY PERCENT OF THE ELEMENTS CITED IN ARTICLES 1 AND 5 SHALL BE FINANCED BY JUNE 30, 1974. END QUOTE. FYI AS NOTED IN OUR EARLIER DRAFT, WE ARE PREPARED TO ACCEPT A LATER DATE FOR R AND D. END FYI.

B. PARAGRAPH B: TAKE OUT QUOTE SATISFACTORILY UNQUOTE BETWEEN COMPLETES AND OFFSET. EMBASSY MAY EXPLAIN THAT THIS CHANGE ALLOWS EACH SIDE TO ADVANCE ITS OWN INTER-

PRETATION OF WHETHER THIS AGREEMENT CONSTITUTES FULL OR SATISFACTORY OFFSET. FOR EXAMPLE, USG WILL NEED TO EXPLAIN THIS AGREEMENT TO US CONGRESS IN CONTEXT OF JACKSON-NUNN AMENDMENT. PRESUMABLY FRG WILL EXPLAIN AGREEMENT TO BUNDESTAG IN DIFFERENT CONTEXT.

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